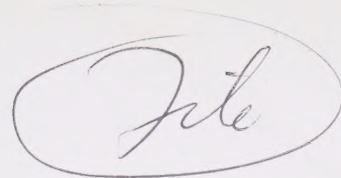


AR29



**CHURCHILL FALLS**  
(LABRADOR) CORPORATION LIMITED



## Annual Report 1967





## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### Officers

Chairman: DONALD GORDON, C.M.G., LL.D., D.C.L., D.Sc.Com.  
Deputy Chairman: EDMUND L. DE ROTHSCHILD, T.D.  
President and Chief Executive Officer: DONALD J. McPARLAND, P.Eng.  
Vice-President (Finance): E.G. LAMBERT, C.A., A.T.I.I.  
Vice-President (Legal) & Secretary: C. T. MANNING, B.C.L.  
Treasurer: M. C. BURNES, C.A.

### Directors

ROBERT DOUGLAS ARMSTRONG, Toronto, Ontario  
President, Rio Algom Mines Limited

\* HENRY BORDEN, C.M.G., Q.C., Toronto, Ontario  
Former President and Chairman,  
Brazilian Traction Light & Power Company, Limited

PAUL GUY DESMARAIS, Montreal, Quebec  
President, Trans-Canada Corporation Fund,  
Gelco Enterprises Ltd. and Provincial Transport  
Enterprises Ltd.

\* VAL DUNCAN, O.B.E., London, England  
Chairman and Chief Executive,  
The Rio Tinto-Zinc Corporation Limited

\* DONALD GORDON, C.M.G., LL.D., D.C.L.,  
D.Sc.Com., Westmount, Quebec  
Chairman, Churchill Falls (Labrador) Corporation  
Limited and President and Chief Executive Officer,  
British Newfoundland Corporation Limited

\* SAM HARRIS, New York, U.S.A.  
Senior Partner of Strasser, Spiegelberg, Fried & Frank  
GEORGE PUGH HOBBS, St. John's, Newfoundland  
Chairman, Newfoundland and Labrador  
Power Commission

JEAN-CLAUDE LESSARD, Montreal, Quebec  
President, Quebec Hydro-Electric Commission

\* DONALD J. McPARLAND, P.Eng., Westmount, Quebec  
President and Chief Executive Officer,  
Churchill Falls (Labrador) Corporation Limited;  
Vice-President, British Newfoundland Corporation  
Limited; President, Twin Falls Power Corporation  
Limited

ANDRÉ MONAST, Q.C., Quebec City, Quebec  
Partner, St. Laurent, Monast, Desmeules & Walters,  
Advocates

\* EDMUND L. DE ROTHSCHILD, T.D., London, England  
Senior Partner of N.M. Rothschild & Sons

PHILIP SHELBOURNE, London, England  
Partner of N.M. Rothschild & Sons

\* ARTHUR S. TORREY, Montreal, Quebec  
Chairman, Pitfield, Mackay, Ross & Company  
Limited

SIR MARK TURNER, London, England  
Deputy Chairman, Kleinwort Benson Limited  
and The Rio Tinto-Zinc Corporation Limited

*\* Member of the Executive Committee*

*Les personnes intéressées peuvent  
se procurer la version française  
de ce rapport annuel en  
s'adressant au service des  
Relations publiques, Churchill  
Falls (Labrador) Corporation  
Limited, One Westmount Square,  
Montréal 6, P.Q.*

#### Head Office

1 Viking Road  
St. John's, Newfoundland

#### Executive Office

One Westmount Square  
Montreal 6, Quebec

#### Associated Company

Twin Falls Power Corporation Limited  
1 Viking Road  
St. John's, Newfoundland

#### Auditors

Peat, Marwick, Mitchell & Co.  
Montreal, Quebec

#### Bankers

Bank of Montreal  
N. M. Rothschild & Sons, London, England  
Morgan Guaranty Trust Company of New York,  
New York, U.S.A.

*Cover: Aerial photograph of  
Churchill Falls, taken by Robert  
O. Boyd, also shows rapids  
spanned by Brinco Bridge.*

## Foreword from the President



Everyone associated with Churchill Falls (Labrador) Corporation is pleased that 1967, our country's centennial year, saw the greatest activity to date on Canada's largest hydro-electric site. This was particularly fitting since the Churchill Falls Project has such far-reaching importance for Canadians as a whole.

The main thrust of your Company's activities during 1967 can be broadly categorized in the following four areas: building an organization and assembling a team to undertake the many varied tasks required to bring this vast project into being; initiating major engineering and construction activities to ensure that power will be available on schedule in 1972; work on completion of the definitive power contract with the Quebec Hydro-Electric Commission for disposal of this power well forward into the next century; and finally preparation, evaluation, and detailed planning with respect to the alternatives available for the major financing arrangements which are necessary to provide adequate funds to see the Project to completion.

During the past year the Company organization has been increased to approximately the level needed for the duration of the Project. Engineering and construction activities have proceeded on schedule.

Work has proceeded continuously on the Power Contract. Finalization of this document involves resolving the myriad of technical, operating, financial, and legal details inherent in what is believed to be the largest contract of this nature ever executed. Preparation of the Power Contract has kept pace with technical and other decisions in related areas.

Substantial progress has been made on plans for the long-term financing, with a view to making suitable arrangements for provision of the large sums of money which will be required over the next eight years to construct the Project and bring it into operation.

In October, 1967 it was decided not to proceed, at that time, with an offer of Churchill Falls shares to the general public. Instead, the funds required for immediate purposes, to an amount of \$37.5 million, were obtained from subscriptions for common stock in the Company at \$15 per share by the existing shareholders.

During 1967 construction commenced on the expansion of the hydro-electric plant of Twin Falls Power Corporation Limited which is managed by your Company. Churchill Falls has voting control of Twin Falls Power Corporation. A fifth generating unit is being added which will increase the installed capacity to 300,000 h.p. by the end of 1968. This work has proceeded on schedule and within cost estimates. Financing, beyond the cash resources of Twin Falls, has been provided by arrangements for the private placement of up to \$10 million of U.S. first mortgage bonds at an interest rate of 6¼%.

Both cost and schedule performance on the construction of the Churchill Falls Project have been satisfactory during the year. Contracting patterns and bid awards have been close to forecasts.

Considerable concern has been evident in many quarters during the last few years over the disproportionate increases in wage and material costs as compared to productivity and end product value. There are now signs that, to a degree, this situation is correcting itself within the construction industry. The cost projections for Churchill Falls over the next five years, which include a prudent allowance for possible cost increases, may therefore be viewed with confidence in the light of recent trends and current experience.

I would like to acknowledge the unfailing support of the Directors, and also to pay tribute to the unusually hard work, under sometimes difficult conditions, so willingly provided by both the Churchill Falls management and staff, and the Acres Canadian Bechtel organization, in this, the first year in which the Company has been engaged in major project activities.

A handwritten signature in dark ink, appearing to read 'D. J. McParland'. The signature is fluid and cursive, with a large, stylized 'M' and 'P'.

D. J. McPARLAND

PRESIDENT AND CHIEF EXECUTIVE OFFICER.

Montreal, February 14, 1968.

## Report of the Directors to the Shareholders

*Smoke and dust follow  
blasting of pilot bore  
for access tunnel towards  
area of underground  
powerhouse for the  
Churchill Falls project.  
Drive into rock began  
in fall of 1967.*



The signature in October 1966 of a Letter of Intent for the disposition of the output of Churchill Falls led to a prompt re-mobilization of the Project. This Letter of Intent provides that, commencing in 1972, the Quebec Hydro-Electric Commission will undertake to purchase power from the Churchill Falls Development in amounts which will reach approximately 32 billion kilowatt hours annually by 1976.

The planning and advance studies which had been in progress for several years enabled work on the Project to accelerate rapidly with a minimum of delay. Within 15 days of the signature of the Letter of Intent project mobilization was underway and construction crews were moving to the site.

### Preliminary Work

The initial program in the first half of 1967 was directed towards readying the site for major construction activities. This program included the construction of the road from the Brinco Bridge at the Churchill River to the powerhouse site; the establishment of permanent camps, mess facilities and other amenities for an initial work force of 1,200 men; the establishment of communications and transport facilities, and similar preparatory activities.

### Engineering Activity

Basic conceptual engineering for the Project had been completed during the period 1964 to 1966, and was available when the Project was reactivated. Work began early in the year on translating the basic technical concepts into detailed engineering drawings, suitable for construction of the plant and procurement of major equipment components. A sharp increase in field exploration work took place as well, in order to

determine the final siting of the major hydraulic structures.

Engineering studies were made on the overall Project to update all current field and topographical data prior to release of construction contracts. This program led to some revisions in reservoir layout, and minor changes in the plant, directed towards either simplifying the construction or reducing the cost of these installations.

Alternative transmission line corridors were also examined, and the final routing for the three Extra High Voltage circuits was selected.

In the last quarter of the year a complete cost review of the entire Project was made, with a view to fixing estimated costs in connection with the major financing program. Studies at depth were also made with respect to anticipated escalation trends for the costs of labor and material over the life of the Project; and a full evaluation was made of contingency allowances. This review led to no significant increase or decrease in the previous capital cost projections for construction of the Project, other than those costs associated with scope changes, such as the addition of an 11th unit and the change in the size of the units, which are referred to below.

By year-end plans had been completed for the permanent town centre, grouping under one roof stores, hotel, recreational facilities, and a school. Plans were also completed for the hospital, and the first group of more than one hundred housing units. These will remain as a part of the permanent community, which it is estimated will have a population in excess of 1,000 after the construction is completed. Considerable thought has been given to the planning of the permanent townsite at Churchill Falls. It is proposed as an all-electric town, designed with the climate and topography

*Premier Joseph Smallwood of Newfoundland digs spade into caribou moss for formal inauguration of Churchill Falls hydro development, July 17, 1967.*



very much in mind, and it will represent a significant advance in the ability of Canadians to adapt to a northern environment.

### Plant Size

The final selection in March of the transmission configuration permitted optimization analysis on the plant size and the transmission line design. Certain matters which could not be resolved at the time of the signing of the Letter of Intent, which foresaw the possible alternatives of either alternating current or direct current transmission, became amenable to study and analysis when the decision was made to employ 735,000 volt alternating current transmission from the Churchill Falls site.

These studies have led to the addition of an 11th generating unit and some increase in the size of the proposed units. The Churchill Falls Development is now planned for an installed capacity of  $5\frac{1}{4}$  million kilowatts or over seven million horsepower. This clearly places it in the foremost ranks of the hydro-electric projects currently under construction in the world.

### Major Contracts

During the year, contracts with a value approximating \$77 million were awarded. Contract awards have averaged slightly below estimates, and highly competitive tendering with tight bid groupings has been the general rule.

Principal amongst the contracts awarded during the year was an order placed in June, with an estimated value of \$50 million, for the supply of 10 turbines and generators with their auxiliary equipment. The agreement includes an option for procuring the 11th unit. These machines will have an output more than twice that of any hydro equipment presently in operation or under manufacture. Over 90 per cent of the equipment will be manufactured in Canada by a consortium of three companies.

### Principal Construction Activity

In August the award was announced of two contracts totalling approximately \$7 million for

the first underground work on the Project. One contract was for an access tunnel to the powerhouse and the top heading of the first tailrace tunnel, and the second contract was for a vertical access shaft and tunnel drifts along the powerhouse arch. The award of these contracts marked an important milestone in the development of the Churchill Falls Project. Previous work had been directed largely towards readying the site, and the commencement of underground excavations marked the first phase of the permanent installations for the power complex.

The drive into the rock of the Labrador Plateau, towards what will be the largest underground powerhouse in the world, began in November. Work by drilling crews has continued into the winter despite severe temperatures and cold weather operating conditions.

The area of the underground powerhouse, which is the heart of the hydro-electric project, is being approached from above by the vertical access shaft, and from the side by a horizontal access tunnel. The excavations which are now underway will serve as access to permit men and equipment to excavate the powerhouse proper, which will be over 1,000 feet long. The neighboring surge chamber will be almost as large, and the transformer gallery running the length of the powerhouse will constitute the third of a trio of man-made caverns 1,000 feet underground.

Another important contract was awarded in November for the construction of a 76-mile all-weather heavy duty road to the eastern reaches of the reservoir area, at a cost of \$2 million. This road, leading northeast from near the powerhouse site to the Orma Lake and Fremont Lake areas, is the first segment of a system of roads which will reach out a total of 300 miles to key areas of the 2,400 square mile reservoir.

This road network will provide access for men, material and equipment, to construct more than



*Steel rises at main construction camp for permanent recreation centre completed by year-end.*

32 miles of dykes, largely earth filled, which will be built on the periphery of the reservoir to hold back 1,100 billion cubic feet of usable water storage.

During the year work proceeded satisfactorily on the provision of permanent construction facilities. These included a recreation centre, a large office building, police and fire station, single staff dormitories, and a mess hall to accommodate over 900 men at one sitting. By the end of 1967 these facilities were essentially complete.

Electricity has been brought into the Churchill Falls construction site over a 32-mile 66,000-volt power line from the Twin Falls plant, which itself is being expanded to meet the growing needs of iron ore mining operations in western Labrador, and to provide electricity for the Churchill Falls construction requirements.

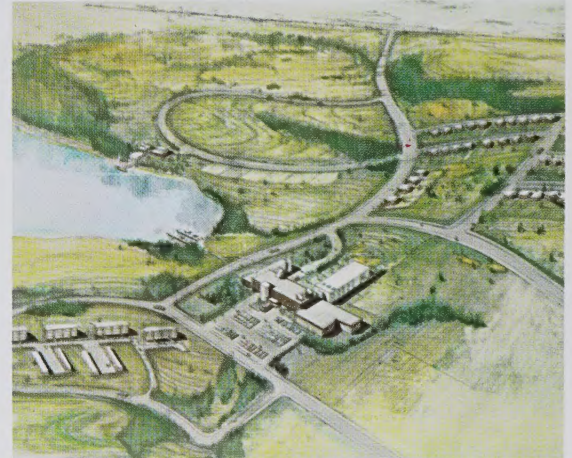
### General

During the year a large part of the activities of the Company staff was directed towards preparation of plans for long-term financing and development of the definitive power contract. Both areas of effort required a multitude of detailed studies and many complex factors had to be identified, evaluated and resolved.

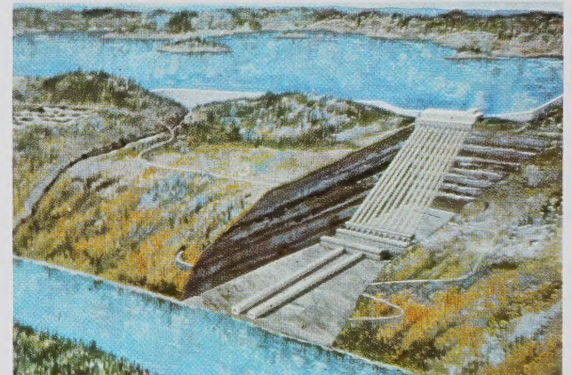
During 1967 the engineering, construction and financial groups of the Company were brought up to approximate establishment level required for the construction period. This involved the employment by the Company of new staff and their melding into an effective working team. Key appointments in the last 15 months were those of Vice-President Finance, Manager of Engineering, and Director of Public Relations.

After many years of active service to the Company, Dr. R. L. Hearn decided not to offer himself for re-election to your Board in 1967. His contributions and guidance have been invaluable in the affairs of the Company. Mr. R. D. Armstrong and Mr. P. G. Desmarais were elected to the Board during 1967.

An event of significance to the Churchill Falls Project was the signing in August of a collective labor agreement, between an association of contractors engaged in construction at the power project site, and a council of unions comprised



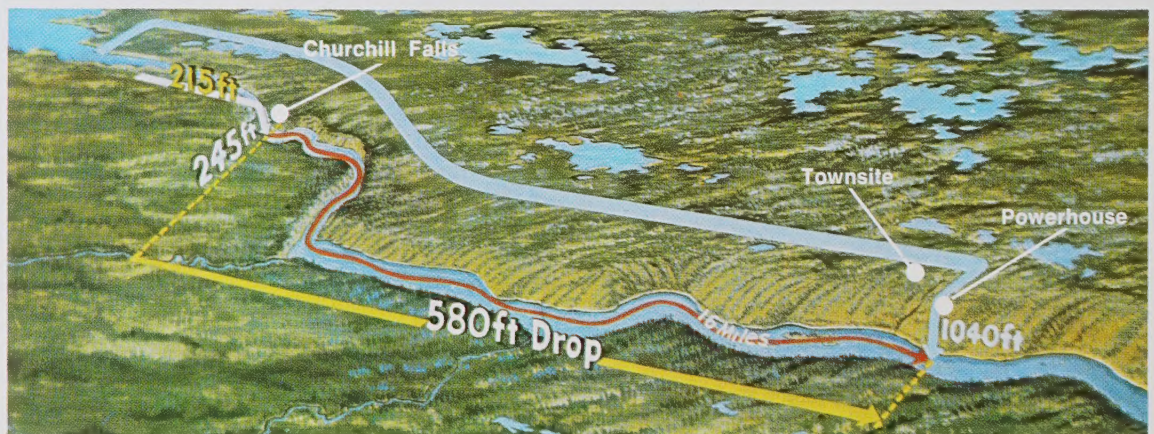
*Permanent community at Churchill Falls will feature large town centre with facilities all under one roof.*



*Cut-away drawing shows 11 inclined penstocks leading from forebay to underground powerhouse.*

*Churchill Falls project will develop 7,000,000 h.p. from combination of large water volume and 1,040 ft. drop in river level from above Falls to powerhouse.*

*Drawings are from the film "Power in Perpetuity" available through the Company's Public Relations Department.*



*Holes are drilled in rock for blasting at tailrace tunnel portal.*



of 11 Newfoundland-based local unions all affiliated with international unions. This agreement, which extends by its terms to August 31, 1975, covers all construction and culinary employees on the Project. The agreement contains a no-strike/no-lockout clause, and provides an agreed formula for wage adjustment during the term of the contract.

The continued co-operation and goodwill of the Government of Newfoundland throughout 1967 was instrumental in clarifying the Company's position in respect of a number of matters including tax rebates and exemptions, and acquisition of leases and titles; all of which are of significant importance to the successful construction and financing of this great project. Moreover, the Government demonstrated its confidence in our undertaking by increasing its share participation in the Company from 5% to 10% through the acquisition from British Newfoundland Corporation of part of its holding in Churchill Falls (Labrador) Corporation.

#### **Economic Effect of Project**

At the year end there were approximately 1,500 people employed full time directly on the Churchill Falls Project, including field construction forces and engineering and administrative personnel at the various sites and offices where work is being performed for the Project.

It is estimated that perhaps half again as many persons are indirectly employed in supply industries, transport, communications, and similar functions which service the present level of project activity. In addition to this, there is substantial employment involved in manufacturing capital goods for the Project. It is not possible to estimate with accuracy the number of jobs which have been created in production industries in the country as a result of orders presently placed for equip-



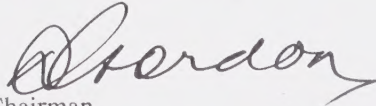
*Cliffside is excavated for addition of penstock and fifth generating unit at Twin Falls hydro-electric plant to service Churchill Falls construction and growing needs of iron ore mines in western Labrador.*

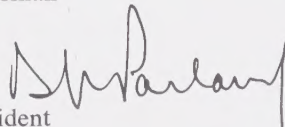
ment and supplies, but it can be readily realized that a substantial number of people have already felt the impact of the Project.

As an economic stimulus and a generator of new business activity the Churchill Falls Project will have immense and long-lasting beneficial effects on Canada. Foremost amongst these will be a large block of reliable and economic power with a stable cost structure.

The steadily growing need for economical electrical power and the basic natural endowments of the Churchill Falls site have combined to create a project of vast dimensions, which during the past year was firmly launched as one of the most significant developments in Canada in our time.

Respectfully submitted,

  
Chairman

  
President

Montreal, February 14, 1968.



**CHURCHILL FALLS**  
(LABRADOR) CORPORATION LIMITED

**Balance Sheet as at December 31, 1967**

<b>Assets</b>	<u>1967</u>	<u>1966</u>
Current Assets:		
Cash and short term deposits .....	\$ 728,343	1,900,433
Accounts receivable (including \$199,780 from affiliate) .....	510,764	239,495
Total current assets .....	1,239,107	2,139,928
Special refundable tax .....	18,901	21,822
Investment in shares of Twin Falls Power Corporation Limited, at cost (note 1) .....	2,500,000	2,500,000
Churchill Falls power project, at cost (note 2) .....	42,231,079	17,483,499
Less accumulated depreciation .....	3,423,125	2,615,151
	<u>38,807,954</u>	<u>14,868,348</u>
	<u>\$42,565,962</u>	<u>19,530,098</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable (including \$2,412 to parent) .....	\$ 4,781,654	664,076
Accrued liabilities .....	359,548	71,620
Taxes payable .....	—	20,094
Total current liabilities .....	5,141,202	755,790
Advances from shareholders (note 3):		
Parent company .....	2,006,902	1,440,880
Minority shareholders .....	10,730,138	559,120
	<u>12,737,040</u>	<u>2,000,000</u>
Shareholders' equity:		
Capital stock (note 3) .....	24,149,980	16,538,170
Retained earnings .....	537,740	236,138
	<u>24,687,720</u>	<u>16,774,308</u>
Commitments and contingent liabilities (note 4)		
	<u>\$42,565,962</u>	<u>19,530,098</u>

*The accompanying notes are an integral part of the above balance sheet and should be read in conjunction therewith.*

Approved on behalf of the Board:

DONALD GORDON, Director.

J.-C. LESSARD, Director.



**CHURCHILL FALLS**  
(LABRADOR) CORPORATION LIMITED

**Statement of Earnings and Retained Earnings for the Year Ended December 31, 1967**

	<u>1967</u>	<u>1966</u>
Revenue from Twin Falls Power Corporation Limited:		
Rental of rights and facilities .....	\$ 641,000	641,000
Dividends .....	350,000	287,500
Construction management fee .....	<u>166,974</u>	<u>—</u>
	1,157,974	928,500
Interest and other investment income .....	<u>—</u>	<u>60,065</u>
Gross revenue .....	1,157,974	988,565
Newfoundland rental .....	48,398	34,464
Depreciation (note 2) .....	<u>807,974</u>	<u>701,065</u>
Net earnings for the year (note 5) .....	301,602	253,036
Retained earnings (deficit) at beginning of year (note 7) .....	<u>236,138</u>	<u>(16,898)</u>
Retained earnings at end of year .....	<u>\$ 537,740</u>	<u>236,138</u>

*The accompanying notes are an integral part of the above statement of earnings and retained earnings and should be read in conjunction therewith.*

**Statement of Source and Application of Funds for the Year Ended December 31, 1967**

	<u>1967</u>	<u>1966</u>
Source of funds:		
From current operations —		
Net earnings .....	\$ 301,602	253,036
Depreciation .....	<u>807,974</u>	<u>701,065</u>
	1,109,576	954,101
Issue of capital stock (note 3) .....	5,611,830	—
Advances from shareholders .....	<u>12,737,020</u>	<u>2,000,000</u>
	<u>19,458,426</u>	<u>2,954,101</u>
Application of funds:		
Development of Churchill Falls power project .....	24,747,580	2,994,305
Special refundable tax (adjustment) .....	<u>(2,921)</u>	<u>21,822</u>
	24,744,659	3,016,127
Decrease in working capital .....	<u>\$ 5,286,233</u>	<u>62,026</u>

*The accompanying notes are an integral part of the above statement of source and application of funds and should be read in conjunction therewith.*



## Notes to the Financial Statements as at December 31, 1967

### (1) Twin Falls Power Corporation Limited:

Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") holds voting control of Twin Falls Power Corporation Limited ("Twin Falls") through its ownership of all the Class A shares which carry four votes per share but these shares represent only one third of the shareholders' interest in Twin Falls and, therefore, its assets and liabilities have not been included in Churchill Falls' financial statements.

Churchill Falls' share of the net earnings of Twin Falls for 1967 amounted to \$373,099 of which \$350,000 has been included in the financial statements as dividends.

Churchill Falls' share of the retained earnings of Twin Falls at December 31, 1967 was \$208,640, which is not reflected in the accounts.

### (2) Churchill Falls Power Project:

In 1966 certain expenditures were charged to the Churchill Falls power project whereas in previous years similar items were treated as expenses. However, an additional amount of depreciation was provided so that the change in accounting treatment did not cause any change in earnings. In 1967 Churchill Falls' accounts were adjusted retroactively to put all years on the same basis as 1966. These retroactive adjustments did not affect retained earnings. The additional amount of depreciation provided was \$1,659,046.

### (3) Capital Stock:

- (i) On February 14, 1967 the Company issued 75,000 shares at a price of \$20 per share and 12,061 shares at a price of \$30 per share for an aggregate cash consideration of \$1,861,830.

By supplementary letters patent dated September 1, 1967 each authorized share without nominal or par value was subdivided into two Common Shares and the authorized capital stock of Churchill Falls increased to 10,000,000 Common Shares without nominal or par value.

On October 31, 1967, 133,332 fully paid Common Shares were issued against the cancellation of \$1,999,980 non-interest bearing shareholders' advances.

On the same date the shareholders subscribed for 2,500,000 additional Common Shares at a price of \$15 per share of which \$1.50 per share was paid in cash and the balance is payable at any time at the call of Churchill Falls.

On October 31, 1967, the shareholders paid \$12,737,020 by way of advances in anticipation of calls and Churchill Falls undertook to pay interest monthly at 6¾% per annum on those and subsequent advances of a like nature.

A Canadian chartered bank has issued to Churchill Falls, for the account of British Newfoundland Corporation Limited ("Brinco"), a letter of credit, which is irrevocable until it expires July 2, 1968, for \$21 million to be utilized only in respect of payments of amounts unpaid on the 1,705,175 Common Shares subscribed for by Brinco on October 31, 1967 at \$15 per share of which \$1.50 per share was paid on allotment.

- (ii) As at December 31, 1967

Common Shares without nominal or par value:

	<u>Shares</u>	<u>Amount</u>
Authorized .....	10,000,000	
Issued:		
Fully paid .....	3,593,332	\$20,399,980
10% paid .....	2,500,000	3,750,000
	<u>6,093,332</u>	<u>\$24,149,980</u>

(4) Commitments and Contingent Liabilities:

- (i) At December 31, 1967 Churchill Falls had entered into contracts related to the Churchill Falls power project of which the uncompleted portion amounted to \$114 million currently estimated to be payable (subject to certain conditions) as follows :

1968	\$30 million	1971	\$15 million	1974	\$6 million
1969	21 million	1972	13 million	1975	3 million
1970	19 million	1973	6 million	1976	1 million

- (ii) Under the terms of the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961 and amendments thereto Churchill Falls has entered into a 99-year lease covering the water power potential of the Upper Churchill Watershed and is required to pay an annual rental of 8% of the consolidated net profits before income taxes (as defined) and an annual royalty of 50 cents per horsepower year generated (as defined).
- (iii) Churchill Falls' liability under its pension plan for past services is being paid by annual instalments over 23 years. The payment for past service in 1967 was \$4,100. The total unfunded liability for past service is \$61,600.

(5) Income Taxes:

No provision has been made for taxes on income because Churchill Falls did not have any income subject to tax.

(6) Directors' remuneration:

Remuneration paid to Directors in 1967 amounted to \$23,233.

(7) Comparative Figures:

The 1966 comparative figures reflect the adjustment referred to in note 2 and a retroactive adjustment to earnings for 1966 and 1965 of \$28,723.

### Auditors' report to the Shareholders

We have examined the balance sheet of Churchill Falls (Labrador) Corporation Limited as at December 31, 1967 and the statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1967 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change referred to in note 2 to the financial statements, with which we concur.

Montreal, Que.  
January 29, 1968

PEAT, MARWICK, MITCHELL & CO.  
Chartered Accountants

# Twin Falls Power Corporation Limited

## Balance Sheet as at December 31, 1967

Assets	1967	1966
Current assets:		
Cash and short term deposits .....	\$ 3,090,090	764,000
Marketable securities, at cost		
(market value \$1,788,900) .....	1,797,650	4,540,600
Accounts receivable .....	419,252	351,931
Supplies and prepaid expenses .....	137,140	163,414
Total current assets .....	5,444,132	5,819,945
Special refundable tax .....	88,262	60,083
Funds held by Trustee .....	4,321,250	—
Plant and equipment, at cost (note 3) .....	55,001,713	49,598,779
Less accumulated depreciation .....	7,123,474	5,615,333
	47,878,239	43,983,446
	<u>\$57,731,883</u>	<u>49,863,474</u>
 Liabilities		
Current liabilities:		
Accounts payable (including \$111,956 to affiliate) .....	\$ 918,231	73,394
Accrued liabilities .....	55,929	76,179
Dividends payable (including \$87,500 to affiliate) .....	262,500	300,000
Income taxes payable (note 2) .....	102,305	167,259
First Mortgage Bonds Series A due within one year		
(\$1,167,000 U.S.) (notes 1 and 4) .....	1,242,663	1,177,708
Total current liabilities .....	2,579,648	1,794,540
First Mortgage Bonds (notes 1 and 4):		
5½ % Series A due June 30, 1986 (\$35,029,000 U.S.) .....	37,300,130	38,542,793
6¼ % Series B due June 30, 1989 (\$ 7,000,000 U.S.) .....	7,553,304	—
	44,853,434	38,542,793
Deferred taxes applicable to future years (note 2) .....	2,172,880	1,469,518
Shareholders' equity:		
Capital stock (note 5):		
Authorized — 500,000 Class A shares of the par value of \$10 each		
— 1,000,000 Class B shares of the par value of \$10 each		
Issued — 250,000 Class A shares fully paid .....	2,500,000	2,500,000
— 500,000 Class B shares fully paid .....	5,000,000	5,000,000
Retained earnings .....	625,921	556,623
	8,125,921	8,056,623
Commitments and contingent liabilities (note 3)		
	<u>\$57,731,883</u>	<u>49,863,474</u>

*The accompanying notes are an integral part of the above balance sheet and should be read in conjunction therewith.*

Approved on behalf of the Board:

W. J. BENNETT, Director.

M. F. NICHOLSON, Director.

# Twin Falls Power Corporation Limited

## Statement of Earnings and Retained Earnings for the Year Ended December 31, 1967

	1967	1966
Sales of power .....	\$ 7,113,566	6,681,864
Cost of power .....	1,626,120	1,462,829
Interest on first mortgage bonds .....	2,168,668	2,230,865
Depreciation .....	1,513,676	1,502,792
	<u>5,308,464</u>	<u>5,196,486</u>
Earnings before the following items .....	1,805,102	1,485,378
Income from investments .....	287,435	241,229
	<u>2,092,537</u>	<u>1,726,607</u>
Taxes on income (note 2):		
Current .....	269,877	260,269
Deferred .....	703,362	548,728
	<u>973,239</u>	<u>808,997</u>
Net earnings for the year .....	1,119,298	917,610
Retained earnings at beginning of year .....	556,623	501,513
	<u>1,675,921</u>	<u>1,419,123</u>
Dividends declared .....	1,050,000	862,500
Retained earnings at end of year .....	<u>\$ 625,921</u>	<u>556,623</u>

The accompanying notes are an integral part of the above statement of earnings and retained earnings and should be read in conjunction therewith.

## Statement of Source and Application of Funds for the Year Ended December 31, 1967

	1967	1966
Source of funds:		
From current operations:		
Net earnings .....	\$ 1,119,298	917,610
Depreciation .....	1,513,676	1,502,792
Deferred income taxes .....	703,362	548,728
Disposal of plant and equipment .....	9,816	5,671
	<u>3,346,152</u>	<u>2,974,801</u>
Proceeds of bond issue less held by Trustee .....	3,232,054	—
	<u>6,578,206</u>	<u>2,974,801</u>
Application of funds:		
Plant and equipment, net .....	5,418,285	558,412
Reduction of long-term debt .....	1,242,663	1,177,708
Dividends .....	1,050,000	862,500
Special refundable tax .....	28,179	60,083
	<u>7,739,127</u>	<u>2,658,703</u>
Increase (decrease) in working capital .....	<u>\$ (1,160,921)</u>	<u>316,098</u>

The accompanying notes are an integral part of the above statement of source and application of funds and should be read in conjunction therewith.

# Twin Falls Power Corporation Limited

## Notes to the Financial Statements as at December 31, 1967

### (1) First Mortgage Bonds:

The following amounts of 5½ % First Mortgage Bonds Series A due June 30, 1986 and 6¼ % First Mortgage Bonds Series B due June 30, 1989, have been authorized, issued and retired by Twin Falls Power Corporation Limited ("Twin Falls").

	Series A (U.S. \$)	Series B (U.S. \$)
Authorized .....	42,500,000	10,000,000
Issued .....	39,500,000	7,000,000
Retired .....	3,304,000	—
Outstanding December 31, 1967 .....	36,196,000	7,000,000
Payable within one year .....	1,167,000	—

The bonds are repayable in equal semi-annual instalments of principal and interest, Series A currently and Series B commencing December 31, 1969, and are secured by a first fixed and specific mortgage, pledge and charge on plant and equipment and long-term power and other contracts and a first floating charge on all other assets of Twin Falls. Certain restrictions are placed on the payment of dividends other than stock dividends.

### (2) Income taxes:

Taxes on income have been provided on the basis of claiming maximum capital cost allowances which exceed the depreciation recorded in the accounts. The resulting reductions in current income taxes have been recorded as deferred taxes applicable to future years.

### (3) Commitments and Contingent Liabilities:

- (i) Twin Falls has commenced the installation of additional generating capacity and related facilities at an estimated cost of \$11.7 million of which \$5.7 million has been expended to date. At December 31, 1967 the uncompleted portion of the contracts entered into by Twin Falls in connection with the expansion programme amounted to \$3.8 million.
- (ii) Twin Falls has entered into a Sublease with Churchill Falls (Labrador) Corporation Limited giving Twin Falls the right to develop the hydro-electric power potential of the Unknown River, a tributary of the Churchill River. The term of the Sublease expires December 31, 1989 but provision is included for a renewal term of 25 years. Rentals paid annually by Twin Falls to Churchill Falls (Labrador) Corporation Limited amount to \$305,000 and \$1.40 per installed horsepower. The installed horsepower is being increased from 240,000 horsepower to 300,000 horsepower. In addition, Twin Falls pays an annual royalty of 50 cents per horsepower year generated (as defined).

### (4) Foreign Currency Balances:

The First Mortgage Bonds Series A and B are carried in the balance sheet at the proceeds in Canadian dollars realized at the time such bonds were issued. The December 31, 1966 balance sheet has been adjusted to reflect this treatment.

### (5) Capital Stock:

The issued share capital of Twin Falls consists of 250,000 Class A shares of the par value of \$10 each, owned by Churchill Falls (Labrador) Corporation Limited and entitled to four votes per share, and 500,000 Class B shares of the par value of \$10 each, owned by the present customers of Twin Falls and entitled to one vote per share. The Class A and Class B shares rank pari passu in all other respects.

## Auditors' report to the Shareholders

We have examined the balance sheet of Twin Falls Power Corporation Limited as at December 31, 1967 and the statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1967 and the results of its operations and the source and application of its funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Que.  
January 29, 1968.

PEAT, MARWICK, MITCHELL & CO.  
Chartered Accountants.



### GENERAL LOCATION MAP

SCALE 0 250 500 MILES

